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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001781

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SUBJECT: VICE PRESIDENT SIEW ASSESSES TAIWAN'S ECONOMY

REF: TAIPEI 01564

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Classified By: AIT Director Stephen M. Young, reasons 1.4 (b) and (d).

¶1. (C) In a wide-ranging discussion with AIT Director Young, Vice President Vincent Siew expressed guarded optimism that Taiwan's economy will recover in the second half of 2009. At the same time, Siew believes recent moves to improve cross-strait economic ties would not have much impact on Taiwan's economy in the near term. He thinks the Ma administration will take steps to save the island's memory chip and flat panel screen manufacturers, but said the current downturn highlights the need to restructure Taiwan's economy to reduce reliance on exports as a driver of growth. Siew meets regularly with economists on issues such as reducing unemployment and stimulating domestic demand, although the group simply informs Siew's informal advice to President Ma and Premier Liu Chao-shiuan, leaving unclear how much real influence Siew has on policy decisions. The Director urged official endorsement of an upcoming health risk assessment report on U.S. beef as an important way to restore public confidence in imported beef. End Summary.

¶2. (C) On December 29, the Director called on Vice President Vincent Siew to discuss the state of Taiwan's economy. Siew, an experienced economic policy-maker, said although the island's financial sector is basically sound, restoring investor confidence will take time. He added that Taiwan's reliance on exports to drive GDP growth poses challenges. In response to the Director's question whether increased exports to China would revitalize Taiwan's economy, Siew said he "did not endorse the idea of putting all the eggs in one basket." Siew added that, in his view, Beijing sees the current downturn as the time to increase domestic demand to raise GDP, however it was unclear if recent PRC policies to that end will relieve unemployment.

¶3. (C) The Director asked about a possible bailout of Taiwan's troubled DRAM (memory) chip industry. Siew said the Ma administration would "probably" take some steps to assist the island's DRAM and flat panel manufacturers at a possible cost of USD 3 billion. Siew did not offer any specifics about how the administration would assist ailing firms. He said the depreciation of the Korean won made it more difficult for Taiwan companies to compete for export market share, and opined that the depreciation was possibly

deliberate. The Director asked whether the New Taiwan Dollar was also being allowed to depreciate to boost exports. Siew replied simply that President Ma Ying-jeou has full confidence in Bank of China (ROC) Governor Perng Fai-nan, and would not pressure Perng to make adjustments to economic policy for political reasons.

¶4. (C) Returning to the issue of the slowing PRC economy, Siew said he had heard that migrant workers in Guangdong and Shandong provinces are buying one-way tickets to return to their home villages for the lunar new year. This suggested they do not expect to have jobs to return to after the holiday. The Director inquired whether recent cross-Straits economic liberalization measures (Ref A) had helped Taiwan's economy. Siew replied "not really", adding that he personally did not expect "immediate results" and had advised Ma and Premier Liu Chao-shiuan that it was unlikely the new measures would have much impact in the short term. According to Siew, these measures are part of a larger process of "normalization" of economic ties between Taiwan and China. He characterized this as part of a long-term strategy to increase access to markets globally and transform the island into a regional operations center for multinational corporations. Siew said the relatively small increase in the number of tourists coming to Taiwan from the PRC, following the Ma administration's announcement in July that it would allow up to 3,000 cross-Straits tourists per day, did not surprise him but "it did surprise Ma."

¶5. (C) Siew meets twice a week with a group of economic advisors to discuss specific issues such as unemployment, tax reform, and assistance to troubled industries. , but said the group's role is only advisory and President Ma and Premier Liu make decisions about economic policy. Siew added

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that the group has discussed how to create a "knowledge service industry" and "cultural creative industry", as well as medical care, tourism and "green industry" as possible strategies for future economic growth. Siew did not provide details about what the group had recommended to President Ma.

¶6. (C) In regard to Taiwan's growing unemployment problem, Siew said he and the group of economic advisors have considered options for how to create jobs. Siew added that the public perception foreign workers are taking jobs away from Taiwan residents is a politically sensitive issue, requiring careful handling. Siew said Taiwan would not reduce the quota of foreigners allowed to work on the island, but would also not increase the quota. He said the administration will need to consult with industry on ways to reduce the number of foreign workers in manufacturing jobs. (Note: Most foreign workers in Taiwan are employed in construction or as domestic helpers. End Note.) Siew said that Taiwan's unemployment rate for 2009 would likely be over five percent. But since Taiwan residents have not experienced such levels of joblessness, consumers' and investors' confidence has been seriously shaken.

¶7. (C) Siew believes the present economic crisis presents an opportunity for Taiwan to restructure its overall economy. That said, it should be done in a manner that does not compromise the long-term goal of increasing competitiveness and attracting foreign investment to the island. Siew predicted the first half of 2009 would see the worst of the economic downturn, but export orders will increase in the second half of the year. He said growth in 2010 would depend on three factors: increased export levels in the second half of 2009, increased domestic consumption, and execution of the "Love Taiwan" domestic infrastructure construction projects. Siew has advised Premier Liu to appoint one of the cabinet's Ministers without portfolio to supervise these projects, due to the potential importance for future economic growth.

¶8. (C) Regarding the possibility of legalization of gambling on the island of Penghu, Siew predicted the Ma administration

will seek to implement it in 2009, but added that language in the relevant legislation would limit gambling only to Taiwan's offshore islands. Siew added that Legislative Yuan Speaker Wang Jin-pyng supports the idea.

¶9. (C) The Director raised the health risk assessment of U.S. beef imports which the Ministry of Health is expected to put on its website later this week. The Director stressed the importance of having that the Premier and Minister of Health Yeh Chin-chuan publicly endorse the use of science-based standards for imports, in order to restore public confidence in the safety of imported U.S. beef. Siew replied that the release of the risk assessment report will be important to show the Taiwan public that the administration is actively guarding the public's safety. But he added that it would be difficult to predict how long it would take to restore consumer confidence in imported U.S. beef. The Director emphasized that high-level administration officials can influence change in public opinion by openly supporting the results of the risk assessment. Siew said he would pass that message to Premier Liu.

¶10. (C) Comment. Although Siew made it clear he regularly provides advice to President Ma and Premier Liu, it is unclear if the administration is making the most effective use of Siew's extensive experience in economic matters. While not directly contradicting Ma's policies to enhance cross-Strait economic relations, Siew's statements suggest he believes Ma and others were overly optimistic in their statements about the potential benefits to Taiwan. For political reasons, during the election campaign Siew may have kept his reservations to himself about the exaggerated predictions for the economic impact of improving cross-Strait tourism and transportation. Now he is quietly sharing his opinions in private settings like our meeting. This may reflect some degree of frustration on Siew's part over the limited impact of the Vice Presidency, seven months into his term. End Comment.  
SYOUNG